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DOW THEORY LETTERS

"THE MARKET AS INTERPRETED UNDER THE DOW THEORY"

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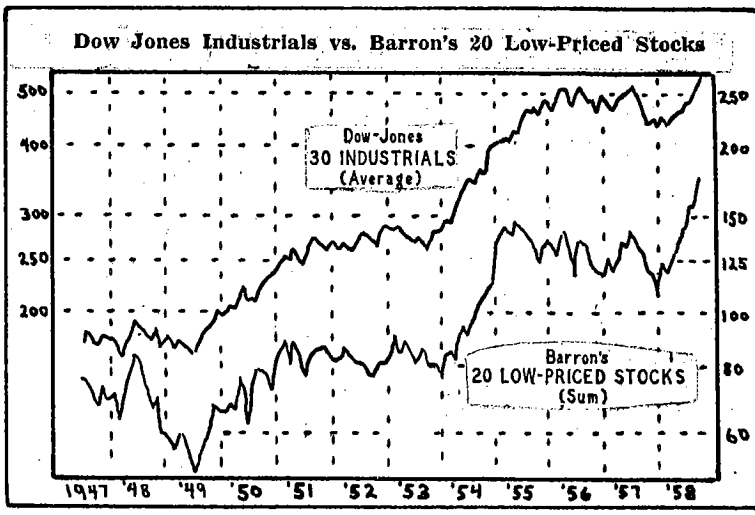
LOW-PRICED STOCKS. The third or "boom" phase of an extended bull market (see brochure) has always been accompanied by a great advance in low-priced stocks. In this speculative phase many cats-and-dogs make unbelievable gains, some spurting as much in a week as they will earn in five years. At the top of the third phase of the 1942-46 bull market when the Dow-Jones industrials hit their high of 212, Barron's low-priced stock average also hit its high of 173. It has never been back to this high, even though the present bull market has moved considerably higher in terms of the Dow-Jones industrials (now about 543). The Barron's low-priced stock index has remained persistently below its 1946 level. Last week for the first time since 1946, the 173 mark was bettered as Barron's average hit 178. This fact gives added proof that we are now in the third phase of a bull market; the cats-and-dogs are moving again. This also means that people who purchased low-priced issues in 1946 and held them might have lost money for thirteen years--and might just now be breaking even! The financial moral--buy cats-and-dogs just before the third phase of a bull market. Considering that the Dow-Jones industrials are now more than double the highs of 1946, it is not unreasonable to assume that the low-priced stock move is seeing its beginning here, and that Barron's index could double before this major bull market tops out. For instance, International Tel. and Raytheon (two former "dogs") might have been purchased for less than $14 not more than a few years ago. Last week both stocks (having gained vastly in stature) sold over $50. Many other speculations will have similar moves in the next few years. Low priced stocks should be bought in groups. Few of us know in advance which candidates will be the future winners. Diversification can be a form of insurance. Here are a few numbers that I believe could work out well: CONTINENTAL MOTORS, AVCO, AMERICAN CABLE, SPARTON, HUPP, SYMINGTON WAYNE, BALDWIN LIMA, COTY, WELBILT, GRAHAM PAIGE, LEHIGH VALLEY INDUSTRIES. On the American Exchange: FELMONT PETROLEUM, FARGO OILS, DRILLING & EXPLORATION, CONTINENTAL AVIATION AND ENGINEERING.



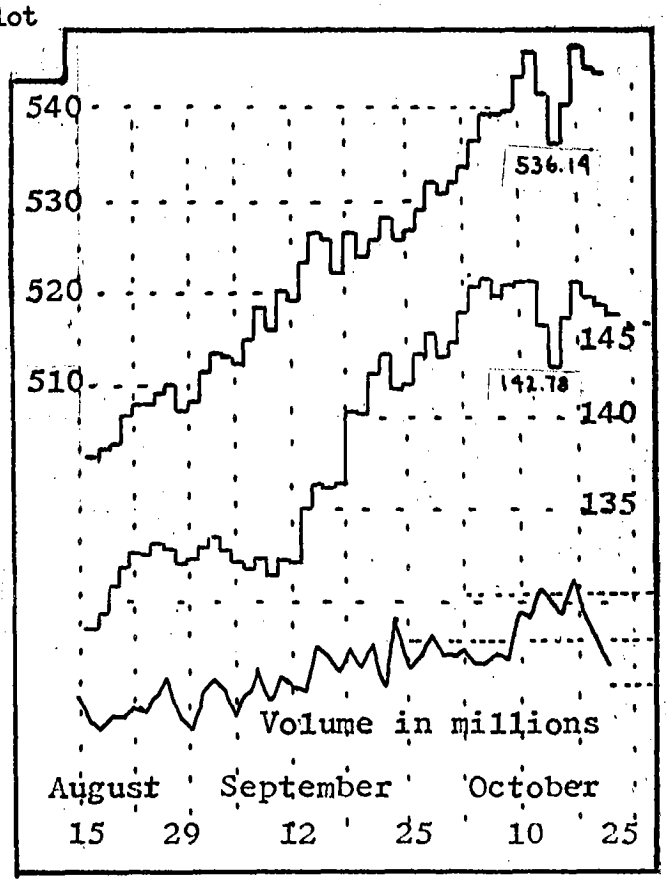
THIRD PHASE. Another means of identifying the third phase of a bull market is comparative volume. By last week volume was near 532.2 million for the year, up 28% from the same period in 1957. Yet in 1957 volume was 220% more than 1949 when this bull market began. It is interesting that in 1949 stocks were great values. Yet judging by the 1949 volume, the country was singularly disinterested in securities. We can be sure that near the top of this bull market when values are non-existent, volume will be enormous, and the public will be vitally interested in stocks! AVERAGE DAILY VOLUME FIGURES: 1949--1,023,321; 1952--1,296,757; 1954--2,275,296; 1956--2,216,272; 1957--2,222,011; 1958--(so far)-2,542,697.

DOW THEORY. Last week, after a driving advance in which industrials roared into all-time high territory, a sharp reaction ensued. Dow Theorists noticed that the rails, after hitting their highs of 147.54 on Oct. 7, had refused to go above this point despite the great industrial strength. The danger signals were flying, since we know that both averages must move

together or "in gear" and corresponding points must be bettered if a bullish trend is to continue. Following a high-volume sell-off on Oct. 14 and 15, rails declined to 142.78 and industrials to 536.14. On the 16th industrials dropped an interday 4 points, but volume dried-up and a sharp rally ensued. That day industrials closed at 540.11 and rails at 145.36. On the 17th a great surge carried industrials to 546.36 (all-time high) but rails closed at 147.29, still 25 cents under the Oct. 7 high. Following this, three things could have occurred--two bullish and one bearish. If the two averages plunged through their Oct. 15 lows (536.14 and 142.78) on increasing volume the indications would have been for a real reaction. If the averages moved towards their lows of the 15th on decreasing volume, and if one or both averages refused to penetrate the lows of the 15th, the implications would have been bullish. If both averages had continued upward on increasing volume and the rails then advanced above the Oct. 7 highs of 147.54 things would have been bullish. However, I would prefer a test of the reaction lows on decreasing volume rather than an immediate penetration of the old highs. If volume dries-up on the down-move, the market is indicating an absence of overhanging liquidation and an even healthier advance can ensue.

(written Oct. 22, 1 p.m.) For three days now the market has been drifting off on bullishly decreasing volume. This is a test of last Wednesday's lows (see chart). There seems little chance, as of this writing, of a penetration of last week's lows by both averages and, in my opinion, the situation is now strongly bullish. The longer that one or both averages remain above last Wednesday's lows the stronger this market will become as selling continues to dry-up on the downside. This is a "buy-area" and the following stocks can be purchased here. If last Wednesday's lows are violated by both averages stocks purchased here could be sold with slight loss. THOMPSON PRODUCTS, GENERAL MOTORS, BETH. STEEL, U.S. STEEL, REPUBLIC STEEL, DOW CHEMICAL, INT. TELEPHONE, ANACONDA, AMERICAN SMELTING, JOHNS MANVILLE, U.S. RUBBER.

ODD-LOTS. Significantly, on the two sell-off days last week the odd-lotters (under 100 shares) sold heavily while it was reported that the large investor stood pat. Dow said that the most bullish possible force on the market was sustained buying by investors. With this in mind, it becomes clear that in an advancing market in which the odd-lotter (the non-investor) has been selling for many months, the buying has come from the even-lotter who tends to be an investor. This, of course, is extremely bullish. Odd-lot figures have been most accurate in the past when the odd-lotter has consistently sold an advancing market. Since May, 1958, there have been only four weeks in which the odd-lotter has bought more than he sold. This phenomenon has happened only three times in the last nine years--in 1949 during the advance from 160 to 320, in 1954 during the advance from 255 to 520, and since last May. The odd-lotter is still tending to sell today. For this reason, despite the great advance that has already taken place, we cannot say that this market is technically weak because of public participation. Unbelievable as this is, the 5 million short interest recently announced is just as amazing. It shows a dogged disbelief, on the part of a tremendous number of people, in any new advance in this third phase of the greatest bull market in history!



(Written Oct. 22-after the close.) Volume receded sharply and bullishly as both averages declined again. As the averages retreat, less and less selling pressure becomes evident. This writer believes that the market is a "buy".